

REPORT OF EXAMINATION
OF THE
CENTRE INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

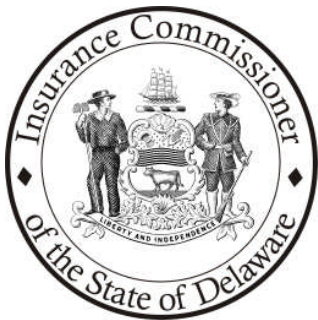
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

CENTRE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 30 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
CENTRE INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 30TH Day of JUNE 2008.

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April 17, 2008

The Honorable Matthew Denn,
Commissioner of Insurance
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Honorable Morris J. Chavez, Secretary,
Western Zone (IV), NAIC
Department of Insurance
State of New Mexico
Post Office Box 1269
Santa Fe, NM 87504-1269

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-035, dated May 2, 2007, an examination has been made of the affairs, financial condition and management of the

CENTRE INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware, as a stock company with its home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 1 Liberty Plaza, 165 Broadway, 33rd Floor, New York, New York 10006. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last financial examination of the Company was conducted by the Delaware Insurance Department as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities with a review of such prior and subsequent transactions as deemed necessary. Transactions subsequent to the latter date were reviewed and have been commented upon where deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to these sections and items noted and in this report, the following were reviewed and included in the examination workpapers:

- Corporate Records
- Conflict of Interest
- NAIC Financial Ratios
- Officers, Employees' and Agents' Welfare and Pension Plans

- Fidelity and Other Insurance
- All asset and liability accounts not mentioned

Workpapers prepared by the Company's external accounting firm, PriceWaterhouse Coopers LLP., (PWC) New York, New York, in connection with the annual audit, were reviewed and relied upon to the extent possible.

Actuarial related balances for the year ending December 31, 2006, were reviewed on behalf of the examination by Michael W. Morro, A.C.A.S., M.A.A.A., of the firm INS Consultants, Inc.

HISTORY

The Company was originally incorporated under the laws of the State of Delaware on May 26, 1977, for the purpose of changing the corporate domicile of London Guarantee & Accident Company of New York to Delaware, to be accomplished through the merger of these two companies. A Plan and Agreement of Merger (Merger) was filed with and approved by the State of Delaware, and in accordance with this Merger, the Company became known as London Guarantee & Accident Company of New York, and took as its date of incorporation, October 31, 1969, the original date of incorporation of the merged company.

Direct stock control of the merged company resided with London Guarantee & Accident Company, Limited, until December 31, 1974, when it was transferred by means of a stock dividend to its parent, Phoenix Assurance, plc, London, England, a minority owned affiliate of the Continental Corporation. On January 18, 1977, stock ownership was transferred to Phoenix of London, Inc. (known subsequently as Sun Alliance USA Inc., a newly formed intermediate holding company and a wholly owned subsidiary of Phoenix Assurance, plc). In 1984, Phoenix

Assurance, plc was acquired by Sun Alliance and London Insurance, plc which was ultimately controlled by Sun Alliance Group, plc, a U. K. holding company.

On February 16, 1995, California Compensation Insurance Company (Cal Comp), a direct subsidiary of Business Insurance Group, Inc. and ultimately controlled by Foundation Health Corporation, acquired the Company from Sun Alliance USA Inc. through a stock purchase agreement. On February 17, 1995, pursuant to the approval of the Delaware Insurance Department, the Company changed its name from London Guarantee & Accident Company of New York to Business Insurance Company.

The Company was acquired by Superior National Insurance Group, Inc. on December 10, 1998. In anticipation of this acquisition, the Company cancelled its pooling arrangement with the Business Insurance Group of companies as of October 1, 1998 and ceded reserves were returned to the Company.

Control of the Company changed again on December 18, 1998, when Centre Solutions Holdings (Delaware), Limited acquired the Company from Superior National Insurance Group, Inc., and the name of the Company was changed to its current name, Centre Insurance Company. Concurrent with the acquisition, 100% of the Company's gross liabilities and obligations arising out of policies written prior to the acquisition were reinsured through a loss portfolio transfer to its prior affiliates, Cal Comp and Superior National Insurance Company (SNIC), and 100% of its new and renewal business was ceded under a reinsurance agreement to Cal Comp (a Fronting Arrangement). The business ceded was related to workers compensation policies.

Until and through most of 2000, the Company was predominantly in the workers' compensation market. This business was produced by SN Insurance Services, Inc., a prior affiliate under the SNIG, in conjunction with a fronting arrangement under which the Company then ceded 100% of the workers compensation business to another entity under the SNIG,

California Compensation Insurance Company. The Company terminated new business under these agreements during early 2000, and by September 2000, the SNIG was placed into rehabilitation by the California Department of Insurance.

Due to rating downgrades from both Standard & Poor's and Moody's on the Centre Group of companies, a management decision was made to voluntarily place the last remaining line of the Company's business in run-off as of March 31, 2004.

CAPITALIZATION

Common Stock

As amended, the Certificate of Incorporation provides the Company with 5,000 shares of \$1,000 par value common stock. As of December 31, 2006, the Company had issued and outstanding 5,000 shares of capital stock totaling \$5,000,000, and gross paid in and contributed surplus totaling \$145,238,396. The Company did not have preferred stock.

All shares of the Company are owned by Centre Solutions Holding (Delaware) Limited, a holding company domiciled in Delaware, which in turn is controlled by Centre Solutions (U.S.) Limited, an insurance and reinsurance company domiciled in Bermuda.

In 2004, the Company received total contributions (3 separate contributions) of \$58,482,830 to its gross paid in and contributed surplus. The following changes occurred in the capital and surplus accounts since the date of the last examination:

Description	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)	Totals
Balance as of January 1, 2004	\$ 5,000,000	\$ 86,755,566	\$ (9,336,930)	\$ 82,418,636
2004 Capital Paid-In		58,482,830		58,482,830
2004 Dividends			0	0
2004 Operations			(19,356,295)	(19,356,295)
Balance as of December 31, 2004	\$ 5,000,000	\$ 145,238,396	\$ (28,693,225)	\$ 121,545,171
2005 Capital Paid-In		0		0
2005 Dividends			0	0
2005 Operations			5,043,110	5,043,110
Balance as of December 31, 2005	\$ 5,000,000	\$ 145,238,396	\$ (23,650,115)	\$ 126,588,281
2006 Capital Paid-In		0		0
2006 Dividends			0	0
2006 Operations			8,000,828	8,000,828
Balance as of December 31, 2006	\$ 5,000,000	\$ 145,238,396	\$ (15,649,287)	\$ 134,589,109
2007 Return of Capital *		\$ (50,000,000)		(50,000,000)
2007 Dividends			0	0
2007 Operations			\$ 14,421,358	14,421,358
Balance as of December 31, 2007*	\$ 5,000,000	\$ 95,238,396	\$ (1,227,929)	\$ 99,010,467

* See SUBSEQUENT EVENTS

Operations is defined as: Net income, net realized and unrealized capital gains or losses, change in net deferred income tax, change in non-admitted assets and related items, change in excess of statutory reserves over statement reserves, and cumulative effect of changes in accounting principles. See the caption SUBSEQUENT EVENTS for more information related to capital contributions returned by the Company to its parent, Centre Group Holding US (CGHUS).

The Company did not disclose in its 2004 Annual Statement “Schedule Y”, capital contributions received by the Company from its parent, CGHUS for the following:

- 2004 - Forgiveness of \$41,482,831 related to Tax Sharing Agreement (See Related Parties)
- 2004 Capital Contributions of \$5,000,000 and \$12,000,000

It is recommended that the Company disclose all capital contributions received in “Schedule Y” of its Annual Statement regardless of the nature of the contribution.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to its by-laws, the business and affairs of the corporation is managed by or under the direction of its Board of Directors. The Board of Directors may do all lawful acts not otherwise reserved by stockholders or prohibited by either law or the Certificate of Incorporation. The number of directors was initially set at seven by the by-laws; however, the by-laws allow the number to be changed by the shareholder or a majority vote of the directors. On January 1, 1999, the number of directors was set at a minimum of seven and a maximum of thirteen by Board resolution.

The directors are elected annually by the stockholder, and serve until resignation or their successors are elected and qualified. Seven directors were duly elected on September 30, 2006, and were serving as of the examination date as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Oliver J. Horbelt	President and CEO, (CICO)
Patricia M. Aprill	Treasurer/Controller (CICO)
Marcia B. Scheiner	Chief Financial Officer (CICO)
Douglas A. Carlone	Senior Vice President, (CICO)
Joseph S. Magnano	Senior Vice President, (CICO)
Rudy A. Dimmling	Senior Vice President, (CICO)
Colm J. Holmes	Senior Vice President (CSHUS)

The by-laws require the Board of Directors to meet annually after the annual shareholder meeting, and provide for written consents in lieu of formal meetings. The minutes of meetings verified Annual meetings took place in each year of the examination period.

Officers

Officers were elected in accordance with the by-laws during the period under examination. The by-laws require election of a president, one or more vice presidents, a secretary, and a treasurer. A chairman of the board and other officers may be elected as the

Board deems necessary. Only the chairman is required to be a director. The following officers were serving as of the examination date:

<u>Officer</u>	<u>Title</u>
Oliver J. Horbelt	President
Patricia M. Aprill	Treasurer
Jon Nagel	Secretary
Marcia B. Scheiner	SVP, Chief Financial Officer
Thomas A. Rodgers	SVP, Investment Officer
Ernest I. Wilson	SVP, Actuary
James McNamara	SVP, Global Head of Claims Management
Richard W. Grilli	Senior Vice President
Douglas A. Carlone	Senior Vice President
Rudy A. Dimmling	Senior Vice President
Ali E. Rafai	Vice President

In addition to the above officers, eighteen (18) additional vice presidents and assistant vice presidents were also appointed.

Written notification of changes to officers and directors to the Department is required per 18 Delaware Insurance Code Section 4919. Numerous changes in directors and principle officers occurred during the period under review for which the Company did not provide the required notification to the Delaware Insurance Department. This was mentioned in the previous examination report as a stated violation of said Delaware Insurance Code.

It is again recommended that the Company promptly comply with 18 Delaware Insurance Code Section 4919 and notify the Delaware Commissioner of Insurance of any changes to its directors and principle officers.

Committees

According to the by-laws, the Board may designate committees by resolution that set forth the powers and authority of a committee. An Investment Committee was designated and minutes of meetings were available for review. The following members were serving as of December 31, 2006:

<u>Member</u>	<u>Title</u>
Patricia M. Aprill	Treasurer
Oliver J. Horbelt	President
Marcia B. Scheiner	SVP, Chief Financial Officer

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Title 18, Delaware Insurance Code, Section 5001. The “Ultimate Controlling Person” is Zurich Financial Services, as shown in the following organizational chart:

Zurich Financial Services	SW
Allied Zurich PLC	UK
Zurich Group Holdings (43%)*	SW
Zurich Group Holding (57%)*	SW
Allied Zurich Holdings Limited	CI
Farmers Group, Inc. (10%)	NV
Farmers Group Inc. (86.625%)	NV
Farmers New World Life Insurance Company	WA
Farmers Reinsurance Company	CA
Fire Underwriters Association	CA
Truck Underwriters Association	CA
Zurich Insurance Company	SW
Aktiengesellschaft Assuricum (99.6%)	SW
BG Investments Ltd. (4.58%)	BDA
Zurich International (Bermuda) Ltd. (40.42%)	BDA
BG Investments Ltd. (95.42%)	BDA
Zurich International (Bermuda) Ltd. (29.27%)	BDA
CMSH Limited (64.7%)	BDA
THIC Holdings LLC (50% owned by CMSH Limited)	NH
Centre Group Holdings Limited	BDA
Centre Financial Services Holdings Limited	BDA
Centre Solutions (Bermuda) Limited	BDA
Centre Reinsurance Limited	BDA
Centre Group Holdings (US) Limited	DE
Centre Solutions (US) Limited**	BDA
Centre Life Insurance Company	MA
Centre Solutions Holdings (Delaware) Limited**	DE
Centre Insurance Company	DE
ZC Specialty Insurance Company	TX
Disability Management Services, Inc. (40%)	CT
Orange Stone Holdings	IRE
Crown Management Services Limited	DE
Orange Stone Reinsurance	IRE

Centre Reinsurance Holdings (Delaware) Limited	DE
Centre Reinsurance (US) Limited	BDA
Constellation Reinsurance Company	NY
Zurich Holding Company of America (0.13%)	DE
Risk Enterprise Management Limited	DE
Zurich Holding Company of America (99.87%)	DE
Kemper Corporation	DE
Kemper Investors Life Insurance Company	IL
Kemper Portfolio Corporation	DE
KFC Portfolio Corp	DE
ZFS Finance, USA LLC I	DE
ZFS Finance, USA LLC II	DE
ZFS Finance, USA LLC III	DE
Universal Underwriters Acceptance Corp.	KS
Universal Underwriters Management Company	KS
University Underwriters Insurance Services Inc.	MA
Universal Underwriters Service Corp.	MO
Universal Underwriters Service Corp. of Texas	TX
ZFS Finance, USA LLC I	DE
ZFS Finance, USA LLC II	DE
ZFS Finance, USA LLC III	DE
ZFSH, LLC	DE
Zurich American Brokerage, Inc.	NY
Zurich American Insurance Company	NY
Sterling Forest LLC	DE
American Guarantee & Liability Insurance Co.	NY
Diversified Specialty Risk	TX
Empire Fire & Marine Insurance Company	NE
Empire Management Services, Inc.	NE
Minnesota Marketing Center	MN
Truckwriters, Inc.	NE
Zurich Premium Finance Company	NE
Zurich Premium Finance Company of California	CA
Empire Indemnity Insurance Company	OK
Fidelity and Deposit Company of Maryland	MD
Colonial American Casualty & Surety Co.	MD
Maryland Casualty Company	MD
Assurance Company of America	NY
Maine Bonding and Casualty Co.	ME
Maryland Insurance Company	TX
National Standard Insurance Company	TX
Northern Insurance Company of New York	NY
Valiant Insurance Company	IA
Zurich Agency Services, Inc.	TX
Steadfast Insurance Company	DE
American Zurich Insurance Company	IL
Zurich American Insurance Company of Illinois	IL
Zurich Warranty Solutions, Inc.	IL

Universal Underwriters Insurance Company	KS
Universal Underwriters Insurance Services, Inc.	MA
Universal Underwriters Insurance Services of Alabama, Inc.	AL
Universal Underwriters of Texas Insurance Company	TX
Universal Underwriters Life Insurance Company	KS
Zurich E&S Brokerage, Inc.	CA
Zurich Benefit Finance, LLC	DE
Zurich CZI Management Holding, Ltd.	DE
Zurich Finance, USA	DE
Zurich Global Investment Advisors, LLC	DE
Zurich Services Corp.	IL
Zurich Warranty Management Services LTD	UK
Keswick Realty, Inc.	IL
Zurich International (Bermuda) Ltd. (30.31%)	BDA
CMSH Limited (35.3%)	BDA

All ownership percentages are 100% unless otherwise indicated.

*The percentage of ownership changed in 2007 as noted above.

**See additional comments under “SUBSEQUENT EVENTS” for the merger of Centre Solutions Holdings (DE) and Centre Solutions US (BDA).

Zurich Financial Services (ZFS) is a publicly traded (on the Swiss Exchange) financial services company domiciled in Switzerland and no one individual owns or controls 10% or more of the Company. ZFS conducts its primary insurance operations in the United States through two property/casualty groups, Zurich Holding Company of America and Farmers Insurance Group. Each group operates independently with its own staff. For the year ending 2006, ZFS possessed total assets of \$373 billion, shareholders equity of \$27 billion and earned income of \$4.625 billion or total revenue of \$65 billion.

A review of the Company’s Registration Statement (Form B and C) filings with the Delaware Insurance Department was performed. The Form B and C filings were determined not to be complete and did not acknowledge all parent, affiliate and subsidiary relationships. This was not in compliance with Regulation 1801 and 18 Delaware Insurance Code Section 5005. See “Other Agreements” under the caption “Related Parties” for additional comments.

It is recommended that the Company disclose all of its affiliated arrangements via Form B and C filings to the Delaware Department of Insurance pursuant to Regulation 1801 and 18 Delaware Insurance Code Section 5005.

RELATED PARTY AGREEMENTS

As of December 31, 2006, the Company had the following service agreements in effect with its parent and affiliates:

Intercompany Service Agreements:

The Company receives services under the terms of an Intercompany Services Agreement, effective January 1, 2004, from Centre Group Holdings Limited (CGHUS). CGHUS provides certain services such as accounting, actuarial, administration and transaction management, finance, human resources, legal, claims, risk management, work-out real estate analysis, payor, senior management, tax and management information services. All costs and expenses are allocated based on actual time and expenses incurred, actual usage and availability of services, value created, the size, the number, complexity, risk exposure and value of transactions involved or any other method of allocation. Settlements under this agreement are to occur within thirty (30) days of the receipt of the expenses paid on behalf of the Company from CGHUS.

Under the terms of another Intercompany Service Agreement, effective January 1, 2004, the Company provides services to CGHUS, its affiliates and subsidiaries. CGHUS, affiliates and subsidiaries receive certain services such as accounting, actuarial, administration and transaction management, finance, human resources, work-out real estate analysis, payor, senior management and tax services. All costs and expenses are allocated based on actual time and expenses incurred, actual usage and availability of services, value created, the size, the number, complexity, risk exposure and value of transactions involved or any other method of allocation. Settlements under this agreement are to occur within thirty (30) days of the receipt of the statement of expenses paid by the Company on behalf of CGHUS, its affiliates and subsidiaries.

Tax Allocation Agreement:

The Company is a participant in a “Tax Allocation Agreement” effective December 16, 1999 with its parent, CGHUS and other subsidiaries of the parent. The agreement provides that the federal income tax is to be paid or received from the parent based on the insurance company’s taxable income or taxable loss calculated on a separate return basis. Pursuant to the agreement, tax balances are to be estimated and settled quarterly and tax adjustments are settled annually when the tax return is filed.

In December 2004, the Tax Sharing Agreement was amended to relieve the Company of all indebtedness to the parent for obligations created by the Company’s utilization of affiliate losses under the Tax Sharing Agreement. Also, the amendment stipulated that the Company would receive relief in any year in which its taxable income is offset by affiliate losses in the future. This amendment resulted in a relief of \$41,482,831 for balances through December 31, 2004 owed to its parent and/or affiliates.

In the 2003 examination report, comments and recommendations were noted related to the Company not following the quarterly payment provisions of said Tax Sharing Agreement. From a review of the supporting tax documents and payments for the current examination period, the Company did not follow the payment provisions of said Tax Sharing Agreement.

It is again recommended that the Company comply with the tax settlement provisions of its tax allocation agreement.

Surety Bond:

The Company maintains a Surety Bond issued by Centre Solutions (Bermuda) Limited (CSL). Under the terms of the bond, CSL will cause the Company to have a net worth at all times of at least the greater of one million dollars or the minimum required in accordance with applicable insurance regulations. Any amounts paid out by CSL are to be repaid by the

Company plus 6% interest, but are subordinated to all other obligations of the Company. At December 31, 2006, there are no amounts outstanding.

Other Agreements:

The Company also maintains other affiliated agreements related to the production of business, claims administration and reinsurance. These agreements are discussed under the caption “Territory and Plan of Operation” and “Reinsurance”.

As of December 31, 2006, the Company had the following investment agreement in effect with unaffiliated entities:

Investment Service Agreement

The Company receives investment management services under the terms of an “Investment Management Agreement” effective July 1, 2000 with Scudder Kemper Investments, Inc. (SKI). For the services provided, the Company pays varying basis points based on the assets under management as scheduled in the agreement. In April 2002, Deutsche Bank acquired Zurich Scudder Investments from Zurich Financial Services. As a result of the acquisition, the services previously provided by SKI are now provided by Deutsche Asset Management (DeAM). Services continue to be provided under the terms of the agreement executed with SKI.

The securities managed by DeAM are held by the Bank of New York (BONY) under the terms of a “Custodial Agreement” executed with the Company effective August 25, 1999. The agreement was revised in August 2004 to comply with the provisions outlined in the NAIC Financial Condition Examiners Handbook.

From a review of company documents, all fees due and payable to BONY, DeAM and JP Morgan Chase are actually paid to another affiliate, Centre Group Holdings Limited (CGH). There is no formal written agreement between the Company and CGH for such services

rendered. The transactions between the Company and CGH were not submitted to Delaware Department of Insurance for approval in accordance with 18 Delaware Insurance Code Section 5005 (a). In addition, the transactions were not disclosed in the Annual Statement “Notes to Financial Statement” in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company enter into a formal written arrangement with CGH and submit all transactions to the Delaware Department of Insurance for approval. It is also recommended that the Company disclose such transactions with parent, affiliates and subsidiaries in accordance with the NAIC Annual Statement Instructions.

TERRITORY AND PLAN OF OPERATIONS

Territory

The Company is authorized to write various types of property and casualty insurance business in all fifty (50) states and in the District of Columbia. The Company’s Certificates of Authority were reviewed without exception.

Plan of Operations

The Company was a member of the Superior National Insurance Group (SNIG) until purchased by CGHD. As noted above under the caption, “HISTORY”, the Company is presently in run-off.

Previously all direct business of the Company was produced and administered by “Underwriting Managers” and during the period under review, the Company had agreements with the following managers:

ZC Sterling Insurance Agency (ZC Sterling)

Effective August 1, 1999, the Company and ZC Sterling entered into a Management Underwriting and Claims Agreement. Under this agreement, ZC Sterling was to act as the

Company's managing general agent for voluntary and lender placed homeowners business. Effective July 1, 2004, ZC Sterling ceased writing new and renewal business for the Company on the voluntary homeowners programs and, effective December 1, 2004, ZC Sterling ceased writing new and renewal business for the Company on the lender placed homeowners program. The Company and ZC Sterling entered into a Termination Agreement effective June 30, 2005, whereby, ZC Sterling no longer writes new and renewal business on behalf of the Company but continues to manage the run-off of existing claims and in-force business. ZC Sterling was an affiliate until June 2005 when it was sold to an unaffiliated third party.

Reliant General Insurance Services (Reliant)

Effective February 1, 1999, the Company and Reliant entered into an Underwriting Management Agreement. According to this agreement, Reliant was to serve as an underwriting manager for the production of non-standard automobile insurance for the Company in California. The Company's only 2006 direct business was written under this management agreement by Reliant.

All agents' licensing and administration is handled at the underwriting manager level, and the Company does not maintain a separate agency force.

In addition to the above underwriting managers, the Company utilized third party administrators to administer claims. During the period under review, the Company had agreements with the following third party administrators (TPA):

Risk Enterprise Management Limited (REM)

Effective August 1, 2000, the Company and REM (then an affiliate) entered into an agreement wherein REM is the claims administrator for the workers' compensation business

written by SN Insurance Service, a member of the SNIG. See additional comments under the caption, "SUBSEQUENT EVENTS".

Professional Claims Service, Inc. (PCS)

Effective April 5, 1999, the Company and PCS entered into an agreement for PCS to act as the claims administrator on behalf of the Company for the sub-standard auto business written by Reliant. The only business currently being written by Reliant is the renewal sub-standard auto business.

Keenan and Associates (Keenan)

Effective July 1, 2000, the Company and Keenan entered into a Third Party Administrative Agreement wherein Keenan is the claims administrator for claims from run-off workers' compensation business produced by SN Insurance Services Inc., a member of the SNI Group mentioned above. Keenan administered workers' compensation claims mainly for school districts and city and county municipalities.

REINSURANCE

During 2004, the Company voluntarily placed its existing business into runoff and accordingly does not solicit or write new business. All ceded premium is on contracts incepting in prior years. Most of the ceded premiums are ceded to policyholder captives and Lloyds syndicates.

The schedule below reflects the Company's net premiums as of December 31, 2006. The negative premium reflected is due to the Company being in run-off.

Net Premiums Written

Direct Premiums:

All lines	<u>\$ 378,299</u>
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Assumed Premiums:

All lines - Affiliates	\$(3,267,429)
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All lines - Non-Affiliates	<u>(460,429)</u>
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Total Assumed Premiums	\$(3,727,858)
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Gross premiums written	<u>\$(3,349,559)</u>
------------------------	----------------------

Less Ceded Premiums:

All lines - Affiliates	\$(3,381,692)
------------------------	---------------

All lines -Non-Affiliates	<u>(869,237)</u>
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Total Ceded Premiums	<u>\$(4,250,929)</u>
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Total Net Premiums Written	<u>\$ 901,370</u>
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Assumed Reinsurance:

The Company reported assumed reinsurance agreements with various companies in its 2006 Annual Statement Schedule F Part 1, as follows:

<u>Name of Reinsured</u>	<u>2006 Assumed Premium (Rounding)</u>
Empire Fire & Marine Ins. Co	\$ (635,000)
Empire Indemnity Ins. Co	(410,000)
Fidelity & Deposit Ins. Co	(2,222,000)
Lancer Ins. Co.	(782,000)
Others	<u>321,000</u>
Total Assumed Premium	<u>\$ (3,728,000)</u>

Unaffiliated:

Lancer Insurance Company Quota Share Reinsurance Agreements:

Effective January 1, 1997, the Company became party to several quota share reinsurance agreements with Lancer Insurance Company. Lancer is a specialty insurer of passenger transportation vehicles as well as commercial auto coverage to rental car agencies and personal

auto coverage to educators in the state of New York. The reinsurance agreements cover specified programs. The cession percentage under this agreement ranged from 35 percent for the 1997 through 1999 underwriting years up to 80 percent starting with the 2001 underwriting year. Premiums are ceded on a written basis and losses on a paid basis. The agreements include provisions for ceding commission, reinsurance margin, experience account balance and funds held, as well as maximum annual limits to the business to be ceded. The calculations of these balances are based on formulas defined within the agreements.

Also, the Company and Lancer agreed to a downgrade provision which essentially provided that if the Company falls below an A.M. Best rating of “A”, then certain events/options would be triggered. On November 24, 2003, the Company was downgraded to an “A-” (minus) and in 2004 was further downgraded. Subsequently, the business for all underwriting years prior to 2001 was commuted per an agreement signed on June 29, 2007. The commutation does not include any assumed business for years 2001 and subsequent thereto.

Various other reinsurance contracts were also executed in which the Company provides stop loss or other risk coverage for a variety of insurers/ceding entities. One of these contracts with its affiliates, Zurich American Insurance Company and Steadfast Insurance Company was not considered to be a significant part of the assumed insurer’s reinsurance portfolio.

Ceded Reinsurance:

The Company reported ceded reinsurance agreements with various companies in its 2006 Annual Statement Schedule F Part 3 as follows:

<u>Name of Reinsured</u>	<u>2006 Ceded Premium</u>
Centre Solutions (US) Ltd	\$(3,382,000)
Mortgage Group Reins Ltd	(1,639,000)
Others	<u>769,000</u>
Total Ceded Premium	<u>\$(4,252,000)</u>

Affiliated:

Center Solutions Aggregate Excess of Loss (Stop-Loss Agreement) and Surplus Share Reinsurance Agreements:

Effective January 1, 1999, the Company became party to a Surplus Share Reinsurance Agreement and a Stop-Loss Reinsurance Agreement with its Bermuda domiciled upstream parent, Centre Solutions (Bermuda) Limited (CSUS). The Surplus Share Reinsurance Agreement provides for automatic coverage for maximum net losses from any one deal/program that the Company writes. Under the agreement, net losses from any contract cannot exceed 10% of the Company's stated surplus measured at the most recent quarter prior to inception of the contract. To more efficiently monitor/administer this agreement, the Company and CSUS actually determine the percentage of each programs' business to be ceded at the inception of a new contract, and the percentage then does not change unless both parties agree otherwise. The Surplus Share Reinsurance Agreement inures to the benefit of the Stop Loss Agreement.

The Stop Loss agreement provides catastrophic coverage by limiting the Company's losses in any given year to 105 percent of net earned premiums, net of ceding commissions and brokerage.

All agreements reviewed contained the proper statutory clauses, and the agreements with affiliated entities were noted to have been submitted to and approved by the Delaware Department of Insurance as required.

All Letters of Credit and trust balances utilized as security for unauthorized balances were also reviewed and found to contain the required terms and issuers/depositories were qualified financial institutions, as applicable.

Deposit and Retroactive Contracts

The Company had two contracts with Employers Reinsurance Corporation (ERC) which the Company reported in accordance with the Deposit Accounting requirements of the Statement of Statutory Accounting Principles (SSAP) No. 62. Under the agreements, the Company provided aggregate excess of loss coverage for insurance and reinsurance written by ERC worldwide. A provision was included in the agreements under which no payments would be made that would cause the experience account balance calculated under the agreement to fall below a stated negative percentage of ceded premiums. It was determined that this provision, in conjunction with how the experience account balance is calculated, could determine how much loss is ultimately paid and could be a possible cause for loss payment delays. In addition, terms within the commutation provision could also allow for delay in payment. The agreements with ERC included a downgrade provision which allowed for ERC to cancel its arrangements subject to the Company receiving a downgrade from an “A” rating from A.M. Best. This provision was triggered and ERC elected to terminate its agreements effective January 1, 2004.

Subsequently, the business was commuted per an agreement signed on May 18, 2007. See additional comments under the caption, “SUBSEQUENT EVENTS”.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements with the exception of 2006, which was verified during the current examination, and shows the growth of the Company since the last examination as of December 31, 2003.

<u>Year</u>	<u>Gross Premims Written</u>	<u>Premiums Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Loss Ratio</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>
2006	(\$3,349,559)	\$2,647,282	(\$15,473,870)	259.4	\$554,529,190	\$134,589,097
2005	7,747,762	10,589,372	(17,466,344)	122.4	583,234,090	126,588,281
2004	256,567,199	49,272,932	(12,130,788)	69.6	674,260,255	121,545,171
2003	523,875,845	88,977,649	(29,689,592)	91.7	883,591,947	82,418,636

As shown above, the Company's admitted assets and premiums earned are decreasing due to the Company being in run-off since 2004. Steady increases were noted in surplus as regards to policyholders and net income (not shown) with the exception of 2004. The Company posted a \$9 million loss in 2004 which was primarily due to a \$24 million settlement made to the California Department of Insurance related to litigation regarding the Superior National Insurance Group, Inc. commutation payments and other alleged transfers.

LEGAL ACTIONS

At December 31, 2006, no significant litigation issues were identified; however, significant litigation issues noted in the prior examination were either settled or resolved during this examination period. The settled litigation issues are as follows:

Superior National

The Superior National settlement agreement was executed by all parties to the action in January 2005. On May 18, 2005, the principal settlement payment required by the settlement

agreement in the amount of \$80 million was made. On June 1, 2005, the Court entered the California Insurance Commissioner's Request for Dismissal of the complaint, with prejudice.

Insurance Corporation of Hannover Arbitration

The adverse arbitration decision was reversed by the California Court of Appeal, which among other things, required the parties to initiate a new arbitration proceeding consistent with its opinion. Subsequently, the Liquidation Court ordered a mandatory settlement conference and parties resolved the dispute subject to the approval of the Liquidation Court. On October 26, 2006, the California Commissioner filed a Notice of Application and Application for Order Authorizing the Liquidator to Enter into a Settlement Agreement and Release with the Reinsurers. On November 9, 2006, following a hearing, the Commissioner's Application was approved. Accordingly, by terms, the settlement agreement is now effective.

Non-Traditional Products (Finite Reinsurance)

On November 15, 2004, Zurich Financial Services received a subpoena from the U.S. Securities and Exchange Commission (SEC) and the State of New York, Office of the Attorney General requesting information regarding non-traditional insurance products (Finite Reinsurance). By letter dated May 2, 2005, the Company received an inquiry regarding side agreements and contracts with finite reinsurance characteristics from the Delaware Department of Insurance. On March 27, 2006, U.S. – based Zurich companies reached settlement with the Offices of the Attorney General of the States of New York, Connecticut, and Illinois and the New York Department of Insurance that resolve, among other things, all issues uncovered to date regarding non-traditional products and finite risk and reinsurance, with certain exceptions not considered material.

Broker Compensations and Insurance Placement Practices

On March 20, 2006, Zurich American Insurance Company and its insurance subsidiaries entered into settlement agreements with various state attorneys general and state departments of insurance regarding broker compensation and insurance placement practices. None of these settlements have a material impact on the financial results or surplus of the Company.

ACCOUNTS AND RECORDS

A review of the adjusted trial balance as of December 31, 2006 indicated that the balances consisted of US Generally Accepted Accounting Principles (GAAP) ledger accounts, non-ledger GAAP to Statutory Accounting Principles (SAP) adjustments and after GAAP close adjustments. The adjusted trial balance as of December 31, 2006 supported the financial data of the Company's 2006 Annual Statement.

The Company uses a LAN based environment which operates on parallel bases with its Bermuda and other Zurich affiliate operations.

The Zurich Financial Services Group (Group) uses GAAP for its initial insurance accounting and files its U.S. regulatory statements under the laws and regulations of the domiciliary states and the SAP promulgated by the NAIC. Centre Insurance Company, as a member of the Group, uses the same method.

The Company utilizes three primary systems to record its accounting related transactions: CAMRA, CENSYS, and RESVAL (Reserve Valuation System). Investment valuation and accounting is performed in Bermuda using the CAMRA investment management system. The CENSYS system handles underwriting accounting. All premium and loss data is recorded in the CENSYS system on a manual entry basis from data received from affiliated and unaffiliated administrators and managing general agents. The general ledger processing is performed in the

SAP Financial System. The SAP system integrates accounts payable, accounts receivable, and other general accounting processes and is fully integrated with both the CAMRA and CENSYS systems.

Written premiums, unearned premiums, case reserves, ceding commissions, brokerage, experience account balance, premiums receivable, paid loss payable, paid losses, paid profit commissions and funds withheld are fed into RESVAL from the CENSYS systems.

RESVAL also receives cash flow information from CENSYS. This cash flow information is then used to calculate Premium Deficiency Reserves, which are posted manually into SAP.

The Company's adjusted general ledger trial balances were traced to the annual statements filed with the Delaware Department of Insurance for the period under review.

The Company provided documents to support assets and liabilities as reported in its 2006 Annual Statement. Some exceptions were noted in the testing of underlying data for workers' compensation paid claims by the Company's TPA. See NOTES TO FINANCIAL STATEMENTS – Note No. 1 - Loss Reserves for more information.

The Company utilizes an early cut-off for the recording of its premium/claim data, primarily due to its reliance on administrators/managers and the timing of the receipt of this data. The premium/claim information being recorded represents business either through the third quarter of a calendar year (September) or through October, depending upon whether the program data is being reported on a quarterly or monthly basis, respectively. It was noted that the Company was consistent in its usage of cut-off periods.

FINANCIAL STATEMENTS

The following financial statements and exhibits present the Company's financial condition and operating results as of December 31, 2006, as determined by this examination:

- Analysis of Assets
- Liabilities Surplus and Other Funds
- Underwriting and Investment Exhibit
- Capital and Surplus Account
- Analysis of Examination Changes

It should be noted that the various schedules and exhibits may not add to the total shown due to rounding.

Analysis of Assets
As of December 31, 2006

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$349,519,231		\$349,519,231	
Mortgage loans on real estate : First liens	2,042,603		2,042,603	
Cash	12,479,341		12,479,341	
Subtotal cash and invested assets	<u>\$364,041,175</u>		<u>\$364,041,175</u>	
Investment income due and accrued	\$ 3,079,793		\$ 3,079,793	
Premium and considerations:				
Uncollected premiums and agents'				
balances in course of collection	278,869		278,869	
Reinsurance:				
Amounts recoverable from reinsurers	4,372,592		4,372,592	
Funds held by or deposited with				
reinsured companies	165,126,332		165,126,332	
Other amounts receivable under				
reinsurance contracts	189,499		189,499	
Current federal and foreign income taxes				
recoverable	7,488		7,488	
Net deferred tax asset	25,987,147	\$25,987,147		
Net funds held on structured contracts	16,490,651		16,490,651	
Receivable on retrospective contracts	6,386,665	5,443,874	942,791	
Other assets	493,657	493,657		
Totals	<u>\$586,453,868</u>	<u>\$31,924,678</u>	<u>\$554,529,190</u>	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		<u>Notes</u>
Losses	\$ 58,865,578	1
Reinsurance payable on paid loss and loss adjustment expenses	4,361,224	
Loss adjustment expenses	11,399,353	1
Other expenses	1,940,615	
Unearned premiums	555,844	
Ceded reinsurance premiums payable	6,764,919	
Funds held by company under reinsurance treaties	292,318,250	
Remittances and items not allocated	241,860	
Payable to parent, subsidiaries and affiliates	2,877,415	
Constellation Rein Co. - LPT loss reserve	12,879,332	
Constellation Rein Co. - LPT LAE	5,524,660	
Net funds held on retroactive contracts	1,848,370	
Net reserves on structured contracts	<u>20,362,673</u>	
Total Liabilities	<u>\$ 419,940,093</u>	
Capital stock	\$5,000,000	
Gross paid in and contributed surplus	\$145,238,396	
Unassigned funds (surplus)	<u>(15,649,299)</u>	
Surplus	<u>\$ 129,589,097</u>	
Surplus as regards policyholders	<u>\$ 134,589,097</u>	
Total Liabilities and Surplus as regards policyholders	<u><u>\$ 554,529,190</u></u>	

Statement of Income
As of December 31, 2006

Underwriting Income	
Premiums earned	\$ 2,647,282
Deductions	
Losses incurred	\$ 1,244,574
Loss expenses incurred	5,622,719
Other underwriting expenses incurred	11,253,859
Total underwriting deductions	\$ 18,121,152
Net underwriting gain or (loss)	\$ (15,473,870)
Investment Income	
Net investment income earned	\$ 16,873,316
Net realized capital gains or (losses)	249,982
Net investment gain or (loss)	\$ 17,123,298
Other Income	
Other income (loss)	\$ (41,546)
Interest of funds held	2,154,558
Net income (loss) from structured and retroactive contracts	8,555,324
Total other income	\$ 10,668,336
Net income before dividends to policyholders and before federal income taxes	\$ 12,317,764
Federal income taxes incurred	51,238
Net income	\$ 12,266,526
Capital and surplus account	
Capital and surplus, December 31, 2005	\$ 126,588,281
Gains and (losses) in surplus	
Net income	\$ 12,266,526
Change in net deferred income tax	(3,808,532)
Change in non-admitted assets and related items	(624,064)
Change in provision for reinsurance	166,898
Change in surplus as regards policyholders for the year	\$ 8,000,828
Surplus as regards policyholders, December 31, 2006	\$ 134,589,109

Capital and Surplus Account
December 31, 2006

Capital and surplus, December 31, 2003	\$ 82,418,636
Net income	\$ 8,314,118
Change in net deferred income tax	40,033,989
Change in non-admitted assets and related items	(29,686,148)
Change in provision for reinsurance	16,508,514
Surplus Adjustments: Paid in Contributions	58,482,830
Aggregate Write -Ins	<u>(41,482,830)</u>
Net change in capital and surplus for the year	<u>\$ 52,170,473</u>
Capital and surplus, December 31, 2006	<u><u>\$ 134,589,109</u></u>

Examination Financial Changes

No financial changes were made for examination report purposes due to the immateriality of asset and/or liability balances found to be under or overstated. However, comments are made in the “Notes to Financial Statement” related to those asset and/or liability accounts.

NOTES TO FINANCIAL STATEMENTS

The accompanying financial statements were prepared on a statutory basis in conformity with the accounting practices prescribed or permitted by the Delaware Department of Insurance and the accounting procedures established by the National Association of Insurance Commissioners (NAIC).

The capital and surplus balances reported by the Company for the years under examination were in compliance with the minimum requirements for a multi-line property and casualty insurer as set forth in the Delaware Insurance Code. The capital position of the Company remains above the authorized control level risk-based capital.

The examination review of the Company's financial position as of December 31, 2006, resulted in the following notes and comments:

<u>Note 1 - Loss Reserve</u>	<u>\$58,865,578</u>
<u>Note 1 - Loss Adjustment Expense Reserve</u>	<u>\$11,399,353</u>

The Company calculated reserves are based on assumptions and reserving methods recognized by the Delaware Department of Insurance and are reported net of reinsurance on a non-discounted basis. INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an independent review of the Company's loss and loss adjustment expense (LAE) reserves as of December 31, 2006 in conjunction with the financial condition examination administered by the Department.

Evaluation and analysis of the loss and LAE reserves was performed by Michael W. Morro, ACAS, MAAA, with peer review by James R. Neidermyer, FCAS, MAAA. Their analysis and findings were based upon the prevailing standard of the Casualty Actuarial Society (CAS) and the American Academy of Actuaries (AAA).

After review of the Company's reported losses and LAE, the examination actuary estimated that the net reserves were \$1.7 million higher than the Company's booked and reported net loss and LAE reserves of \$70.3 million. The difference represents 2.5 percent of the December 31, 2006 net Annual Statement reserves and 1.3 percent of the policyholder surplus as of the same date. However, no change was considered to be necessary.

The examination actuary noted two areas where it relied upon work of others and is described below:

- Reliance on the work of the actuary who established the pricing models that Centre uses in its estimation of reserves. It should be noted that the actuarial

report had insufficient documentation to allow another actuary to independently review the workings of the model.

- Reliance on the results of a Milliman study performed in 2004 for the ZC Sterling LP business. The examination actuary received the results of that study from Centre and accepted the Milliman calculations without review.

Per the examination actuarial report: “In the review of the in-house actuarial reports provided to the examination actuary, there is a need for improvement in the quality of the supporting documentation. It is considered important to note that the Company’s actuarial report should serve as a self-contained document in complete support of the Company’s loss and LAE reserves as opined in the Statement of Actuarial Opinion. The examination actuary found that was not the case.

It is recommended that in the future actuarial reports which represent the supporting documentation for the Company’s Statement of Actuarial Opinion contain the appropriate documentation.

As noted under the caption, “TERRITORY AND PLAN OF OPERATION”, the Company used five different claims administrators for its four different business lines. Risk Enterprise Management Limited (REM) was the Company’s claims administrator for the workers’ compensation line of business. Workers’ compensation paid losses and LAE represented almost 82 percent of the Company’s reported paid and incurred losses and LAE. Data testing was only performed on workers’ compensation paid losses and LAE.

During the examination testing of workers’ compensation underlying data, it was noted that of the sample selected, one of the requested files could not be located and numerous paid claim support data could not be found in the other files. At the request of management, the performing examiner re-engaged in efforts to test underlying data in the identified sample. With difficulty, these efforts were ultimately successful, with the exception of the one missing file.

The Examiner also reviewed workers' compensation claim files for both year end case reserves, as well as examination period changes made to case reserves, on files maintained electronically. During this review, case reserve changes made during the examination period could not be identified electronically due to the design of the claim system.

While both the retention and documentation maintenance of claim files was considered improved since the prior examination, the examination Actuarial Opinion was "qualified" due to the inability to review the missing file.

It is recommended that the Company continue its quality control efforts as regards loss file maintenance, supporting documentation, and case reserve change tracking.

Similar exceptions were noted in the prior examination report as of December 31, 2003.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

The prior examination report contained fourteen (14) specific recommendations as follows:

1. It was recommended that the Company hold annual meetings as required by its by-laws, and initiate procedures necessary to ensure all matters pertinent to the operations of the Company are presented to and reviewed by the Board of Directors and are reflected in the minutes of the meetings.

The Company has complied with this recommendation.

2. It was recommended that the Company promptly comply with *Title 18, Section 4919* and notify the Delaware Commissioner of Insurance of any changes to its Directors and Officers and in the future comply with the requirements of *Title 18, Delaware Insurance Code, Section 4919*.

The Company has not complied with this recommendation. (See Management and Control)

3. It was recommended that Form B and Form C filings be completed in accordance with *Title 18, Delaware Insurance Code, Section 5005* and pursuant to the instructions contained in the *Delaware Administrative Code, Insurance Section 1800*.

The Company has not complied with this recommendation. (See Insurance Holding Company System and Related Parties)

4. It was recommended that the Company submit Form D filings to the Delaware Department of Insurance for all of its affiliated arrangements, in a timely manner, pursuant to *Title 18, Delaware Insurance Code, Section 5005*.

The Company has not complied with this recommendation. (See Related Parties)

5. It was recommended that the Company amend its custodial agreement with Bank of New York to comply with the *NAIC Financial Conditions Examiners Handbook*.

The Company has complied with this recommendation.

6. It was recommended that the Company ensure that accounts are reconciled to source records; the existence, accuracy and adequacy of supporting documentation and transaction level detail; and that records requested can be provided in a timely manner in future examinations.

The Company has complied with this recommendation with the exception that its TPA's did not provide complete records to test certain balances and underlying data in a timely manner. (See Accounts and Records and Note 3 – Losses and Loss Adjustment Expenses)

7. It was recommended that the Company adhere with the requirements of SSAP No. 6 in reporting its premium receivable related balances in future filings with the Delaware Department of Insurance.

The Company has complied with this recommendation.

8. It was recommended that the Company comply with its tax sharing agreement.

It was recommended that the Company report its federal income tax related balances on a separate return basis, as was indicated in Note 9.B(2) of the filed 2003 Annual Statement.

It was also recommended that the Company report its Federal Income Tax Expense pursuant to SSAP No. 10, Paragraph 5, and that the liabilities established resulting from the use of losses from affiliated entities not be classified as “Deferred Tax Liabilities” in future filings with the Delaware Department of Insurance.

It was recommended that the Company maintain sufficient detailed records that adequately support the balances associated with the transactions recorded related to these accounts, and that the deferred tax balances be calculated using the “Balance Sheet” approach as required by SSAP No. 10.

The Company has complied with these recommendations with the exception that the settlement terms of its tax sharing agreement are not being followed (Related Parties/Tax Sharing Agreement)

9. It was recommended that the Company obtain a written agreement with all affiliated entities with whom inter-company balances are created, and it is further recommended that the Company settle its intercompany balances timely in accordance with its written agreements and that receivable balances not settled under the agreement be non-admitted in future filings.

The Company has not complied with this recommendation. (See Related Parties)

10. It was recommended that the Company maintain for review sufficient documentation detailing how the Company derived the reserves being carried in future filings with the Delaware Department of Insurance.

The Company has not complied with this recommendation. (See Note 1- Losses and Loss Adjustment Expenses)

11. It was recommended that the Company establish a process to ensure that transaction level data is available for review of all paid loss and loss adjustment expenses and that sufficient supporting documentation be maintained that adequately supports the balances associated with the transactions selected for testing.

The Company has not adequately complied with this recommendation (See Note 1 – Losses and Loss Adjustment Expenses) as a result of not producing one of the loss files requested by the examiner. The Company has been working on and improving its quality control as regards loss file maintenance, including underlying supporting documentation and case reserve tracking. The Company should continue these efforts.

12. It was recommended that the Company properly establish commissions payable as an offset to the gross premium balances reported as uncollected in future filings with the Delaware Department of Insurance.

The Company has complied with this recommendation.

13. It was recommended that the related balances incorrectly classified by the Company as “Advance Premium” be reclassified as “Remittances and Items Not Allocated” in future Annual Statement filings, and that the Company establish a process to reconcile suspense related transactions on a monthly basis, as well as the controls necessary to ensure that the accounts are reconciled in a timely manner and that sufficient detailed records are maintained that adequately support the balances associated with the transactions recorded to this account.

The Company has complied with this recommendation.

14. It is recommended that in the future the Company comply with and/or follow up on all such recommendations as necessary.

The Company has not complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

Capitalization

1. It is recommended that the Company disclose all capital contributions received in “Schedule Y” of its Annual Statement regardless of the nature contribution.

Management and Control

2. It is again recommended that the Company promptly comply with 18 Delaware Insurance Code Section 4919 and notify the Delaware Commissioner of any changes to its directors and principal officers.

Insurance Holding Company System

3. It is recommended that the Company disclose all of its affiliated arrangements via Form B and C filings to the Delaware Department of Insurance pursuant to Regulation 1801 and 18 Delaware Insurance Code, Section 5005.

Related Party Agreements/Tax Sharing Agreement

4. It is again recommended that the Company comply with the tax settlement provisions of its tax allocation agreement.

Related Party Agreements/Other Agreements

5. It is recommended that the Company enter into a formal written arrangement with CGH and submit all transactions to the Delaware Department of Insurance for approval. It is also recommended that the Company disclose such transactions with parent, affiliates and subsidiaries in accordance with the NAIC Annual Statement Instructions.

Note 1 – Loss Reserve

Note 1 – Loss Adjustment Expenses

6. It is recommended that in the future actuarial reports, which represent the supporting documentation for the Company's Statement of Actuarial Opinion, contain the appropriate documentation.
7. It is recommended that the Company **continue its quality control efforts as regards loss file maintenance, supporting documentation, and case reserve change tracking.**

CONCLUSION

As a result of this examination, the financial condition of Centre Insurance Company, as of December 31, 2006 was determined to be as follows:

<u>Description</u>	12/31/06 Current <u>Examination</u>	12/31/03 Prior <u>Examination</u>	Changes Increase (Decrease)
Assets	\$554,529,190	\$883,591,947	(\$329,062,757)*
Liabilities	419,940,093	801,173,312	(381,233,219)*
Capital and Surplus	134,589,097	82,418,636	52,170,461 *

* In 2004, the Company went into runoff and also received capital contributions from its parent, CGHUS.

I, the undersigned, hereby certify that an examination has been made of the Centre Insurance Company, and the proceeding is true to the best of my knowledge.

In addition to the undersigned, Steve Guest (Supervising Examiner), Tommy Gay, Ron Fox, Vince Dyal and Don Carbone, also representing the Delaware Department of Insurance, participated in this examination. Michael W. Morro, A.C.A.S., M.A.A.A, of the firm INS Consultants, Inc, the examination actuary, conducted the review of the Company's reserves. James Boswell of INS Services Inc. provided ACL for the underlying data review and reconciliation of losses and LAE.

Respectfully submitted,



Darryl Reese, CFE
Examiner in Charge
Department of Insurance
State of Delaware

SUBSEQUENT EVENTS

On May 18, 2007, the Company and Employers Reinsurance Corporation, entered into a commutation agreement which eliminated, as of June 30, 2007, the applicable prior quarter assumed reserve balances. The assumed deposit contract with Employers Reinsurance Corporation was reinsured under an Obligatory Surplus Share Reinsurance Agreement between the Company and its affiliate, Centre Solutions (U.S.) Limited.

On July 9, 2007, the Company paid its parent, Centre Solutions Holdings (Delaware) Limited, a return of capital in the amount of \$50,000,000 that was pre-approved by the Delaware Insurance Department. The 2007 Annual Statement in “Schedule Y” did not disclose the return of capital to its parent per the NAIC Annual Statement Instructions.

On November 6, 2007, Centre Solutions Holdings (Delaware) Limited was merged into its parent, Centre Solutions (U.S.) Limited, a Bermuda domiciled insurer. As a result of the merger, Centre Solutions (U.S.) Limited has become the owner of five thousand (5,000) shares of the Company with each share having a par value of \$1,000.

On November 30, 2007, Risk Enterprise Management Limited, the Company's TPA and former affiliate that administers its workers' compensation claims, was sold by its sole owner, Zurich Insurance Company of Zurich, Switzerland, to REM FMG Acquisition Corp., an unaffiliated third party.